One of the over-arching themes of the Pentagon's strategy to cope with declining defense spending is called the "Better Buying Power" Initiative. It's a wide-ranging attempt to rein-in the costs of weapon systems through five major attack vectors, including—

1. Focus on affordability during requirements planning

2. Incentivize contractor efficiency and productivity

3. Increase competition

4. Improve "tradecraft" on acquisition of services

5. Reduce non-productive processes and bureaucracy

We've posted a number of articles on the BBP, though it's been awhile. A good exemplar of our reporting can be found **right here** .

In the past several months since the BPP Initiative was unveiled, the Pentagon bureaucracy civil service has been busy inculcating it into the culture of the acquisition workforce. Did you know that the Defense Acquisition University (DAU) has created a website devoted to the BBP Initiative?
Here's a link
to that site.

Following the links at the DAU site, we found **this nice resource** : a series of BBP training modules. One of the training modules we reviewed was called, "Reward contractors for successful supply chain and indirect cost management."

Well, yes. We agree that contractors should be rewarded for managing their supply chain, as well as for managing their indirect costs. No problem there. We liked the concept so much that we downloaded the PowerPoint training slides and added them to our website Knowledge Resources.

While the training slides too frequently restated history instead of providing knowledge, there were some nice gems to be found inside. For example, here are some points from the slides:

- DoD pays profit/fee to prime contractors on work subcontracted by the prime contractor to subcontractors.

- The level of profit should be calculated to reward performance. Profit on subcontracted work is meant to compensate the prime for taking on the burden of managing subcontractor risk and delivering subcontractor value.

- The alternative is for the Government to manage the subcontractor itself Component Breakout.

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Higher profit should be awarded to management of higher-risk subcontracts, and higher profit should be given when the prime succeeds in driving down subcontractor costs every year.

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If contractors do not aggressively reduce supply chain costs, the government should consider component breakout.

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The Program Manager should analyze if each contractor is aggressively managing and competing the supply chain in order to make breakout decision at each major milestone.

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The Program Manager and his contracting team should structure contracts and deliverables to insure that they have the information they need to analyze and monitor supply chain management, and execute breakouts at each major program milestone and as needed to control program cost.

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In order to facilitate active government supply chain visibility and future breakout of key sub-systems, parts, maintenance, and support, the program office needs to actively pursue and manage data rights to all aspects of the program.

While we don't agree *at all* that cost reduction is the most important element of subcontractor management, we are pleased to see that DOD is distinguishing contractors on the basis of successful subcontractor management.

With respect to indirect cost management, the training slides offered the following points—

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Profit on overhead should incentivize the prime contractor to control overhead cost as well as direct cost.

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Control Direct Costs when incentivizing Indirect Costs reductions

- If not controlled, we will incentivize the contractor to shift costs from one cost category to another cost category without realizing any overall cost reduction

- Profit / Fee incentives should focus on reducing areas of major cost ("heavy hitters"), in order to reduce overall cost

Notice that DOD has (smartly) noted that a mono-focus on indirect costs will simply drive its contractors to make more costs direct charges. Instead of focusing solely on the indirect side, DOD will (hopefully) focus on cost reductions that affect the program's bottom-line cost.

Look, we don't necessarily agree with everything in this particular training deck. We don't think cost reductions at the supplier/subcontractor level are best indicator of supply chain management success. We don't think that more competition is a panacea and will automatically lead to reduced prices. We don't think indirect cost reductions are as easy as DOD thinks they are, given the additional costs driven by DOD's bureaucratic and heavy-handed regulations.

But we also think that this represents a good first step.

Why not visit DAU's BBP Initiative site and see for yourself?